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THE SOCIAL INVESTMENT FORUM

SURVEY ON ALTERNATIVE INVESTMENTS

The Social Investment Forum
~~711 Atlantic Avenue~~ 430 First Ave N
~~Boston, MA 02111~~ Minneapolis
~~(617) 451-3252~~ MN 55401
612-333-8338

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A Report by:

Beate Klein Becker
Shirley Selhub

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The Social Investment Forum
~~711 Atlantic Avenue~~ 430 First Ave N
~~Boston, MA 02111~~ Minneapolis MN 55401
~~(617) 451-3252~~ 612-333-8338

Project Advisory Group:

Joan Shapiro *Project Liaison*	South Shore Bank of Chicago
Jerome Dodson	Parnassus Fund
Hugh Kelley	Social Responsibility Investment Group
Lawrence Litvak	U.S. Trust Company
Chuck Matthei	Institute for Community Economics
David Sand	Franklin Research and Development Corp.
Robert Schwartz	Shearson Lehman Bros. American Express

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1 Summary

The concept of using one's financial resources to address social concerns has gained widespread acceptance in recent years. Socially responsible investing encompasses a variety of investment strategies but is most commonly associated with the social screening of investment securities. Socially screened assets now measure in the hundreds of billions of dollars. Less well known and funded are alternative investments, or investments in projects that are specifically designed to deliver a socially beneficial product or remedy a social ill.

The Social Investment Forum (SIF) is a national professional association whose members are active in developing the concept and practice of socially responsible investing. SIF members include financial professionals who advise clients on the socially responsible placement of capital and are primarily involved in social screening, and development lending institutions that provide capital and technical support to alternative investment projects. A longstanding discussion within the SIF is the disparity in size of investment capital committed to socially screened securities and alternative investments, and the need to increase investor awareness of and support for alternative investments.

The Social Investor Forum Survey on Alternative Investments was undertaken with the support of the Ford Foundation in an effort to understand better the existing and potential market for alternative investments. Specifically, this survey seeks to understand SIF members' attitudes toward and experience with alternative investing; to identify problems that prevent fuller participation in alternative investing; and to solicit recommendations for increasing the market for alternative investing.

The survey produced the following major findings:

Based on hypothetical investment scenarios, SIF members show a high level of interest in alternative investments. The riskiness of an investment is the single most important determinant of investment interest, with respondents' preferring low risk investments even if they involve a below-market rate of return.

Investors appear to expect greater risk and lower returns on social investments than conventional investments. Individual investors are more willing than institutional investors to accept concessionary terms on social investments.

Financial professionals offer clients the opportunity to invest in alternative investments less frequently than their hypothetical interest would indicate. They are nearly twice as likely to offer social investment strategies involving alternative investments that comply to conventional risk and return criteria than strategies requiring risk and/or return concessions.

In practice, however, financial professionals do not distinguish so clearly between concessionary and non-concessionary alternative investments. They are equally likely to place clients in both types of alternative investments as long as these investments involve low risk.

The proportion of socially responsible investment assets committed to alternative investing is very small. The median commitment to alternative investments among responding financial professionals is .1% of their firms' social assets.

The problems that most frequently prevent investment in alternative projects are concern over investment risk and lack of information about alternative investments. Other frequently cited obstacles include the lack of liquidity of alternative investments and non-competitive rates of return.

Suggestions for increasing participation in alternative investments emphasize improving information, education, and public awareness of alternative investing. While it is necessary to improve the mechanical aspects of alternative investing, expansion of the market depends largely on changing attitudes and developing greater demand for alternative investments.

2 Background and Objectives

Socially responsible investing has enjoyed increasing popularity in recent years. Broadly defined as any investment or investment strategy that takes into account an investor's social *and* financial objectives, social investment activities include voting shareholder proxies on social issues, screening investment securities for their social performance, and investing in projects that have a direct social impact. Investors now utilize their financial portfolios to address their social concerns by using one or a combination of social investment strategies. The socially responsible investment market measures in the hundreds of billions of dollars, much of which is attributable to public monies that have been divested of South Africa-related securities.

The majority of assets associated with socially responsible investing are invested in government or corporate securities that are widely traded on public markets. While the issuers of these securities may have positive social attributes or impact, the delivery of a socially beneficial product or remedy of a social ill is rarely their principal purpose. Investors engaged in shareholder resolutions use their ownership of stock to voice opinions and influence corporate behavior. In socially screened portfolios, investors avoid owning securities of entities deemed to have undesirable social policies and seek to emphasize holdings in organizations that have positive social characteristics. The traditional financial valuation of securities held in socially screened portfolios is supplemented by an investor-defined social screening process that rates a security on the basis of its social attractiveness. Financial services featuring social screening have become so popular that this particular type of social investing is often erroneously understood to define the entire field.

A lesser known type of socially responsible investing is alternative investing. This type of investment is characterized by a commitment to financing socially beneficial projects that often cannot find financing through traditional market mechanisms. While most alternative investments are directed to economic development, alternative investments also support human service and environmental initiatives. Alternative investments typically seek to create affordable housing, finance small businesses and cooperatives, support community land trusts and other environmental initiatives, or foster income, employment, and ownership opportunities for low and moderate income peoples. Many alternative investments challenge societal norms regarding the control and distribution of wealth and seek to create alternatives to those norms.

Unlike socially screened securities, alternative investments are usually small investments that are not traded on public markets. Given their small size and private placement status, the market for alternative investments is inherently more limited than that available to publicly traded securities. However, there is a widespread belief among those involved in alternative investing that, even after factoring in their unique financial characteristics, the market for alternative investments falls short of its potential. The growth in the market for socially screened assets has not been matched by comparable growth in alter-

native investments, despite an increase in the number, variety, and sophistication of investment opportunities.[1]

The Social Investment Forum (SIF) is a national membership organization comprised of individuals and institutions active in the field of social investing. SIF members share a common interest in social investing but vary widely in the means by which they manifest that interest. Members include financial professionals such as investment managers, advisors, brokers and financial planners; organizations engaged in financing and otherwise supporting community economic development; individual and institutional investors; and organizations providing research and information on social investing.

Consistent with the organization's objective of sponsoring dialogue on the development of innovative approaches to societal economic issues, the SIF has undertaken this survey to understand better the existing and potential market for alternative investments.

Specifically, this study seeks to address the following questions:

1) What are SIF members' attitudes toward alternative investments?
2) How do their attitudes compare with their actual alternative investment experience?
3) What are obstacles that prevent increased participation and interest in alternative investments?
4) What recommendations do SIF members have for increasing participation and interest in alternative investments?

The diversity of functions within the SIF is useful to understand different perspectives on alternative investments, to identify obstacles that are both common to the general membership as well as unique to certain practitioners, and to develop solutions to problems that are shared by different types of member constituencies.

By surveying the SIF membership, we seek to understand the investment process from the perspectives of the individual and institutional investor, the professionals who assist clients with their social investment decisions, and the lenders who provide technical and financial support to alternative investment projects. We hope that this study will facilitate ongoing communication and cooperation within the social investment community and serve to promote increased public education and interest in alternative investing.

Alternative Investments Defined

Alternative investments finance projects that have a direct social impact and are generally unable to obtain financing from conventional sources. As with socially screened assets, the attractiveness

[1] The distribution of assets among Social Investment Forum (SIF) members illustrates the disparity in size between assets committed to social screening and those invested in alternative investments. The SIF periodically tabulates the size of socially responsible assets under management or advisement by member organizations. The SIF *1988 Social Balance Sheet* shows that member mutual funds, investment managers, brokers, and financial planners and advisors controlled approximately $4 billion in assets, almost all of which are invested in socially screened capital market securities. By contrast, SIF-member community loan funds, banks, and credit unions had about $125 million in assets for use in community development financing.

of an alternative investment is measured in terms of its financial *and* social attributes. However, where the return on capital market investments (including those held in socially screened portfolios) generally accrues as a financial gain to the private investor, alternative investments aim to deliver a positive financial return to the investor as well as a beneficial social return to the public.

For the purposes of the survey, alternative investments were defined as:

> *investments that support social products or purposes through direct debt or equity investments or deposits with specialized financial intermediaries. Alternative investments do not include publicly traded securities even if these securities satisfy certain social investment screens.*[2]

Alternative investments come in many shapes and forms but share a few common financial characteristics. They are typically small, privately placed investments that lack a public market of willing buyers and sellers. The lack of a public market limits the potential investment market for alternative investments. Also implicit in the lack of a public market is investment illiquidity and an absence of investment information, brokers, and a readily available pricing mechanism. Investors or their agents frequently must take responsibility for establishing the terms of their investment and for conducting their own due diligence. Investors may subsidize the investment by accepting a below-market rate of return.

Alternative investment capital can play a crucial role in community economic development. It often takes a subordinated position in a project that consequently leverages more conventional investment capital. Managing and repaying investment capital is an important developmental tool that establishes an organization's track record and credit history. A sound financial management history may attract additional pools of more risk averse capital from conventional financial sources.

Despite their explicit social purpose, alternative investments are decidedly investments and not charitable donations. Although they may not always conform to conventional standards of risk and return, alternative investments are made with the expectation that the principal will be repaid, usually with an incremental return. Unlike grant funding, the repaid investment capital can be re-circulated to other investment projects.

Types of Alternative Investments

Alternative investments often are direct investments in a project through a loan or an equity placement. While simple in concept, direct investments require the most work on the part of the investor to ascertain the project's financial viability. The due diligence process is beyond the scope of most investors and investment professionals who lack both the time and expertise necessary for such an evaluation.

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[2] *Alternative Investment* is just one name used to designate these types of investments. Others include *community development* or *program-related investments*. This survey elicited suggestions for a new, more descriptive name but, as none of the proposed names were clearly superior to *alternative investment*, the project Advisory Group agreed to retain the original term.

An easier way of investing in alternative projects is by using a financial intermediary that specializes in community development investments. This relieves the investor of the responsibility of due diligence. In addition to doing the actual investment analysis, the financial intermediary often provides the project with technical assistance and has a level of familiarity with the project which further assures the security of investment capital.

The alternative investments that most closely resemble conventional investment are deposits in community development banks and credit unions. Investors deposit their funds knowing that their deposits are federally insured and that their investment rate is within the range of commercially-available rates. The key feature that distinguishes these deposits from a deposit at any commercial bank or credit union is the use to which investor funds are put. Lending activity of community development banks and credit unions is deliberately targeted or directed to populations or geographic areas with the goal of affecting social change. These development lenders achieve conventional standards of financial prudency while using unconventionally innovative loan structures.

While the use of a linked deposit strategy has been most fully developed by community lending institutions, conventional lending institutions also can and do engage in this type of alternative investing.

Unlike banks and credit unions, community loan funds are not government chartered or regulated and hence, are uninsured. They thereby have more latitude in determining their lending policies and can be more flexible in both lending and borrowing practices. Loan funds often are committed to financing projects in a particular geographic area but support a wide range of development endeavors including affordable housing, community land trusts, and cooperatively owned businesses. They typically offer a less than market rate of return and require investment commitments of at least a year.

Many, but not all, alternative investments produce a return that is low relative to the risk of the investment. These investments are concessionary investments insofar as they are subsidized by the investor who accepts a below-market rate of return. Some alternative investments involve government rather than investor subsidies. Housing investments that qualify for low income housing tax credits are government subsidized investments. Low income housing tax credits are one example of a federal public policy initiative designed to stimulate private investment in an area of social need.

Like tax sheltered investments, social venture capital funds offer investors an expected rate of return that approximates a market rate. However, these investments usually do not involve either a private or government subsidy and aim to produce a market rate of return on the merits of the investments alone. Relative newcomers to the field of social investing, venture capital funds involve high risk and return investments in projects that are expected to produce significant social benefits.

3 Survey Methodology

Members and friends of the Social Investment Forum were asked to complete a written questionnaire regarding their attitudes and experience with alternative investments.[3] Three hundred eighty-eight questionnaires were mailed to SIF members, friends, and persons who had inquired about the Forum during the nine months prior to the project. Of the 388 questionnaires, 114 (30%) were completed and returned to the Forum.

In addition, a subset of SIF members known to be experienced in alternative investing was interviewed in greater detail about alternative investments. Thirty four interviews were conducted, 19 of which complemented completed questionnaires.

The survey staff were assisted by an Advisory Group of SIF members representing different constituencies within the Forum. The Advisory Group consulted on the design of the written survey, met to discuss the preliminary results of the survey, and reviewed the draft of the final report.

Questionnaire respondents were grouped into categories that broadly reflect the major membership constituencies of the Social Investment Forum. These groupings and their respective number of survey respondents are as follows: Financial Professionals (57); Development Lenders (27); Investors (24); and Others (6) [4]. In some instances data were further disaggregated to examine differences among respondents types within these larger groupings.

A breakdown of the 114 questionnaire respondents follows:

Questionnaire Respondents

Types of Respondents	*Number*
1. Financial Professionals (57)	
Brokers	20
Financial Advisors & Planners	22
Investment Managers	10
Mutual Funds	5
2. Development Lenders (27)	
Loan Funds	15
Banks (Commercial & Investment)	4
Investment Syndicators	4
Credit Unions	2
Community Developers	2
3. Investors (24)	
Individual	19
Institutional	5
4. Other (6)	6
TOTAL	114

Respondents came from 24 states with the greatest concentrations in Massachusetts (23), California (14), and New York (12). The most responses from Financial Professionals came from Massachusetts and New York (10 each); Development Lenders from Massachusetts (10); and Investors from Oregon (5).

Notes on the Survey

This report is based upon the findings of the written questionnaire and personal interviews. It assumes familiarity with the

[3] See Appendix for a sample copy of the questionnaire.

[4] The category of *Other* respondents is omitted from the data analysis because of its disparate composition and small size.

contents of the questionnaire. Reference is made throughout the report to data tables in the Appendix that present results of the questionnaire. The title of each table directs the reader to the location of the question in the survey. For example, Table I (P2,Q1) refers to responses to Page 2, Question 1 of the questionnaire. Data from the questionnaire are supplemented with anecdotal information from personal interviews.

To avoid misrepresentation or distortion of the survey results, all data from the questionnaire are presented in both absolute numbers and percentages. Numbers indicate those who responded affirmatively to a question. Percentages are the ratio of those who answered the question affirmatively to all those who answered that particular question. So as to properly interpret the data, it is important to understand that the percentages are calculated on the basis of total responses to each question, but not on total responses to the questionnaire.

The survey population is a self-selected group that, by virtue of its membership in the Social Investment Forum, has demonstrated a predisposition toward social investing. Because the sample selection process is not random, findings cannot be generalized to a larger investment public. The results of this survey may be representative of the opinions and experience of Financial Professionals, Development Lenders, and Investors within the Social Investment Forum, but not necessarily of those beyond.

Also, responses are more indicative of the attitudes and experience of individual investors than institutional investors. SIF investment professionals are predominantly retail brokers or financial advisors and planners who are experienced with individual clients and represent few institutional clients. Similarly, there are far more individual investors than institutional investors among survey respondents. The survey, therefore, is more reflective of experiences with smaller, individual investors than with large foundations, pension funds, churches, or other institutional investors.

4 Attitudes toward Alternative Investments

Hypothetical Scenarios

In an effort to understand attitudes toward different alternative investment opportunities, questionnaire respondents were asked to consider scenarios describing a hypothetical development bank, loan fund, and a start-up enterprise. Participants were asked whether they would invest in the different projects under the conditions described, and then to indicate whether various changes in the scenarios would increase their likelihood of investing. Tables IA, IB, and IC show Financial Professionals' and Investors' responses to the investment scenarios.[5]

Based on reactions to the three scenarios, it appears that Financial Professionals and Investors are very receptive to placing their or their clients' assets in alternative investments. An average of 92% said they would invest in the development bank, 75% said they would invest in the loan fund, and about 30% said they would invest in the start-up enterprise.[6] The relative attractiveness of the three investments indicates that the level of risk is the single most important investment determinant for alternative investments. Investors are most attracted to low risk alternative investments.

Paradoxically, respondents are more concerned with the absolute level of risk of an investment than in the relationship between risk and return. Based on the relatively high level of interest in the loan fund, it appears that Investors are willing to accept a below-market rate of return as long as the investment is low risk. By contrast, the start-up enterprise is significantly less appealing despite its upside potential. An expected rate of return commensurate with the risk of the project (i.e. a market rate of return) is apparently insufficient to induce investment if the project is very risky.

The *development bank* (Table IA) is the most attractive investment, with nearly all of the respondents indicating a willingness to invest via a personal, an institutional, or a client deposit. Respondents seem to be interested in a low risk, market rate investment that has explicit social benefits. Changes to the scenario that further reduce the investment's risk and enhance its social impact are most popular. Increased security is most important to Financial Professionals who most favor unspecified additional government guarantees.

While increased security is also important to Investors, they indicated more concern with the social purpose of their investment. A majority of either Investors or Financial Professionals indicated increased interest in targeted deposits, bank affiliation with job training and

[5] Data from Development Lenders are not included in this section because of the skewed nature of their responses. For example, loan fund representatives frequently said they would not invest in the hypothetical loan fund because they are in the business of investing directly in housing projects, not other loan funds.

[6] The relatively low level of interest in the start-up enterprise may be as much the result of the high minimum investment requirement as the characteristics of the investment. The change to the scenario that most increased the likelihood of investment in the start-up was a reduction of the minimum investment from $100,000 to $5,000.

enterprise development organizations, and minority ownership. Nearly half of the Financial Professionals said they would be more likely to invest in the bank if they could earn commissions on referrals, an idea which was understandably not popular with Investors. Finally, while a national bank lending program is attractive to many Financial Professionals who deal with a broad-based clientele, Investors indicated that they prefer investing in local projects.

Approximately three quarters of the respondents said they would invest in a hypothetical *loan fund* (Table IB) that has a relatively low loan loss rate and offers below-market interest rates. Investors' main concern is to reduce investment risk through guarantees or a loan loss reserve. Earning a market rate of return is less important to Investors than it is to Financial Professionals. Professionals are equally concerned with risk and return and rank a market rate of return and a fund guarantee as top priorities. Increased liquidity through a secondary market or a sell-back option is also significantly more attractive to Financial Professionals than Investors. By contrast, loans to cooperatively owned businesses are more popular with Investors than Financial Professionals. However, the change that was least attractive to both groups was the use of for-profit developers on loan fund projects.

The hypothetical *start up venture* (Table IC) received the least positive response, with only 42% of Financial Professionals and 22% of Investors expressing investment interest. This example characterizes a comparatively large investment in a risky enterprise that offers potential for a correspondingly high level of return. Financial Professionals are more likely to invest than are Investors themselves. The change most desired by respondents is a reduction of the minimum investment requirement from $100,000 to $5,000. Following the question of investment size, survey participants are most interested in changes that improve the soundness of the business, thereby reducing investment risk. As with the loan fund, Financial Professionals favor changes that increase investment liquidity and permit trading in the securities.

Expectation of Concessions

As noted earlier, social investing encompasses a range of investment strategies including both social screening of capital market securities and alternative investing. The survey asked Financial Professionals whether their clients choose to modify investment objectives to accomodate their social concerns, without specifying any particular type of social investment strategy. Based on responses to the question, it appears that investors expect and/or are willing to accept greater risk and lower returns on social investments than on conventional investments. In other words, investors assume concessionary financing with regard to social investing.

As shown in Table II, 85% of the Financial Professionals said that their individual clients choose at least occasionally to accept greater risk in social investing, and 81% agree to below-market rates of return. Institutional investors are more resistant than individuals to modifying investment objectives. According to Financial Professionals, fewer than half of institutional investors agree to increase risk or reduce return for social investments.

It is important to note that the question does not specify alternative investments but refers to *all* types of social investing. While it became clear from the survey that alternative investments are strongly associated with risk, it appears that all types of social investing carry with them the expectation of concessions in the form of greater risk and/or lower returns.

This assumption of financial concessions was reaffirmed in the interview process. Two social venture capitalists mentioned that the "social" label was responsible for deterring mainstream investors from investigating their funds. One claimed that an investment bank that tried to sell partnership shares in an environmental venture fund had difficulty raising capital because investors assumed it was "social" and therefore of dubious financial quality. Another interviewee who works with large institutional investors said that any investment deemed "social" or "community-oriented" was treated as a risky and difficult transaction even if it was structured exactly like other "non-social" deals.

While many investment professionals acknowledge the skepticism with which the conventional investment world regards social investments, several people also mentioned the marketing advantage they have in selling to investors who are committed to social change. They feel they have a clearly defined market niche that is predisposed to social investing and is sufficiently large to support their businesses.

Several socially responsible mutual fund managers said that they had tried to address investors' negative financial assumptions about social investing by establishing financially conservative investment guidelines for their mutual funds. Having established credible performance track records with these funds, they are now investigating the possibility of creating new funds that would include investments in socially affirmative projects requiring some investor subsidy. They believe that it was necessary to prove that all social investments do not inherently require investor concessions before they created investment vehicles that *do* involve concessionary terms.

Investor Motivation

The most common reason that investors choose to place their assets in alternative investments is to reflect personal values and activities. Two thirds of the surveys' total respondents indicated that personal expression is a reason for investing in alternative investments. Other important reasons for investing in alternative projects are to solve a specific social problem and to provide access to capital that is otherwise unavailable.

Information gathered in the interviews suppports the observation that the personal and emotional appeal of an alternative investment project plays a significant role in attracting and retaining investment capital from individual investors. Investment professionals repeatedly emphasized that those clients' who participate in alternative investments do so because they like to "be able to drive by the project" and know that their money is being put to good use.

Unlike capital market investments to which the investor has little direct connection, alternative investment result in tangible projects with a direct social impact. The sense that one can use one's investment capital to effect social change is one of the most powerful appeals of

alternative investments. One financial professional stressed the importance to investment clients of receiving "positive feedback" in the form of newsletters and other ongoing communication from their investment projects.

Similarly, personal relations and reputation play a larger role in the decision to invest in an alternative investment than in more conventional investments. Development lenders who solicit investment funds repeatedly cited the importance of knowing their investors personally. They also mentioned that the best (and perhaps only) way to convince investment professionals of the competence of the alternative investment intermediary is through the establishment of a personal relationship with the professionals.

This observation was confirmed by several brokers who said that they would have been unwilling to direct clients to alternative investment projects on the basis of written material but became convinced of the integrity of an investment once they got to know the personalities and organization behind the investment. Projects become "real" and therefore less risky when the people behind them are known.

Those working most closely with community development are well aware of the importance of these character references. As shown in Table III, when asked what attracts investors to their organizations, Development Lenders cited reputation as the single most important factor to both individual and institutional investors. Social objectives, operating history, and investment programs are considered slightly less important than reputation. Development Lenders regard financial factors such financial return, security, and liquidity as much less significant in attracting investors, particularly institutional investors.

Institutional Investors

Institutional investors are generally more reluctant to invest in alternative investments than are individual investors. Although the orientation of the SIF membership toward individual investors resulted in less information on institutional investors, survey responses and interviews indicate that institutional investors treat alternative investments more apprehensively than do individual investors.

As shown in Table III, three quarters of the responding Development Lenders believe that individual investors are attracted to their organizations by financial return, but only half of them believe that their return is attractive to institutional investors. The importance of financial return to institutional investors re-emphasizes the findings in Table II which show that institutional investors are far less willing than individual investors to accept greater risk or below-market rate

returns.[7]

Interviewees provided numerous anecdotes about the comparative conservatism of institutional investors. Several community loan fund representatives said that the rate of return and the illiquidity of loan fund investments were of greater concern to institutional investors than individuals. The social venture capitalists said that all of their investment capital came from individuals because institutional investors will not invest in funds without a track record.

Financial Professionals also expressed frustration with trying to work with institutional investors on alternative investments. One portfolio manager told of an institution which, after much debate, committed itself to alternative investments. However, the investment committee specified that the alternative investment funds could not come from that portion of the portfolio that was designated for social investing but had to be raised separately. Several Financial Professionals pointed to the difficulty of working with institutional committees as compared to individual investors. In some cases, they felt that the committee was a useful mechanism for "passing the buck" and failing to come to a decision on alternative investing.

The institutions that are most likely to engage in alternative investing are organizations such as foundations and religious organizations that have an explicit social mission that can be realized, in part, through their investment programs. Some portfolio managers speculated that organizations with a less explicit social function are less likely to commit funds to projects that are not obviously in the best financial interests of the beneficiaries. They pointed out that financial professionals can implement investment policies that have been articulated by clients but cannot be expected to formulate those policies themselves.

One manager expressed the belief that institutions are the next large growth area for alternative investments but that they would gravitate toward low risk investments such as linked deposits and compensating bank balances tied to economic development efforts.

[7] Institutions' greater resistance to investing in risky assets is ironic given that the risk tolerance of some institutional assets is legally deemed to be higher than that of certain types of individual assets. Specifically, standards governing the investment of pension assets are more flexible than those governing personal trust assets. Since the passage of the Employee Retirement Income Security Act (ERISA) in 1974, the riskiness of individual assets held in a pension portfolio is judged within the context of the entire portfolio. Risk is measured on the basis of the entire portfolio rather than each individual holding in the portfolio. Thus, a portfolio can tolerate quite risky assets as long as it is well diversified. When applied to personal trust portfolios, however, the prudent person rule deems that each asset must be judged on its unique merits. Thus, in legal terms, many institutional trust assets can tolerate more risk than can individual trusts.

5 The Role of Financial Professionals

Social Investment Services

The socially responsible investment service most frequently offered by Financial Professionals is social screening of corporate securities. By contrast, investment strategies involving alternative investments in general, and concessionary alternative investments in particular, are offered to clients with less frequency. Despite the high level of hypothetical interest expressed earlier, alternative investing is offered as a social investing service much less frequently than social screening.

As shown in Table IV, more than eighty percent of the survey respondents said that they offered social screening to individual clients and about seventy five percent said they offered the service to institutional clients. A socially screened investment portfolio differs from a traditional portfolio insofar as the traditional financial valuation of securities is supplemented by a screening process that rates a security on the basis of its social attractiveness. That attractiveness is defined by the investor and varies in accordance with the social issue and the definition of an acceptable social standard within a particular issue. Investors may screen their portfolios to exclude securities of companies that fail to meet certain standards and/or favor those that excel in particular areas. Although only one of a number of social investment options available to investors, social screening is so strongly associated with socially responsible investing that it is often erroneously equated with social investing.

Table IV also shows that alternative investing is a less frequently offered investment service than is social screening. Judging from their responses to the hypothetical investment scenarios described in Tables IA, IB, and IC, Financial Professionals are very willing to invest in alternative investments, particularly those on the lower end of the risk spectrum. However, in practice, they offer clients the opportunity to participate in alternative investments less frequently their hypothetical interest would indicate.

Furthermore, it appears that the frequency with which Financial Professionals offer alternative investments options depends on the degree to which the investment meets conventional risk and return standards. *Non-concessionary* alternative investing (i.e. investments that meet conventional risk and return criteria) is second only to social screening as an investment service. *Concessionary* alternative investing (i.e. investments that do not conform to conventional risk and return standards) is the least frequently offered social investment service.

For example, while 96% of Financial Professionals said they would invest in the hypothetical development bank, only about two thirds of them say they offer clients the option of investing in non-concessionary alternative investments defined as *non-publicly publicly traded securities or deposits that satisfy conventional risk/return requirements and finance projects or businesses of social value* (see Table IA and Table IV).

An even greater discrepancy exists between theoretical interest and actual services provided for concessionary alternative investments. Seventy four percent

of Financial Professionals said they would invest in the hypothetical loan fund that offers a below-market rate of return but only 40% say they offer this type of investment option to individual investors. Even fewer offer this option to institutional investors. Thus, social investment strategies that involve *non-publicly traded securities or deposits that DO NOT satisfy conventional risk/return requirements* are about half as common as market rate alternative investments.

Practicing Alternative Investing

Despite the distinction that Financial Professionals apparently make between offering clients concessionary and non-concessionary alternative investment options, they are not as discerning when it comes to actually making alternative investments. As indicated in Table V, Financial Professionals placed clients in both types of alternative investments with roughly equal frequency over the preceding year. Compared to the frequency with which they say they offer different alternative investment strategies (Table IV), Financial Professionals are *less* active in *non-concessionary* alternative investing than expected and *more* active in *concessionary* alternative investing.

Table V shows that most recent alternative investment activity took place in development bank deposits and revolving loan fund investments. The bank deposit fits the description of an alternative investment that conforms to conventional risk/return standards by offering a rate of return equivalent to market rates offered on other investments of similar risk. A revolving loan fund, however, is an alternative investment that does *not* meet conventional criteria because the rate of return offered on the investment is below what would be required in the capital market for an investment with the same risk profile.[8] Thus, while professionals are theoretically reluctant to place clients in investments that do not meet conventional risk and return standards, the data indicate that, in practice, they invest in both conventional and unconventional projects with equivalent frequency. It is important to note that the development bank and revolving loan fund both represent low risk investments.

Table V also details the level of recent alternative investment activity of different types of Financial Professionals. It appears that financial planners and advisors most consistently place clients in the broadest range of alternative investments. By contrast, brokers are unlikely to refer clients to any type of alternative investment. Investment managers and mutual funds are quite experienced with bank, credit union, and revolving loan fund investments but considerably less active with other types of alternative investment vehicles.

Financial Commitment

Although many SIF members indicated that they possess the interest, capability, and experience necessary to do alternative

[8] Even if the quality of the projects financed by the loan fund were superior to that of the bank, the loan fund would be a riskier investment. The lack of a federal guarantee and the longer term of the required investment incur greater default and inflation risk, respectively.

investments, it appears that the proportion of assets committed to these investments is quite small.

Of the 57 Financial Professionals who responded to the questionnaire, only 34 answered a question about the size of their firm's commitment to alternative investments. Of these 34, 19 indicated they have at least some alternative investments, in amounts ranging from 40% to .1% of the firm's total social assets. The median commitment to alternative investments among those 19 respondents is three percent of the firm's social assets. The median commitment to alternative investing among all 34 respondents, including those who say they had no funds invested in alternative investments, is .1% of the firm's social assets.

One portfolio manager observed that there seems to be less interest in alternative investing among more recent social investment clients than among earlier investors. He attributed the waning interest to a change in the type of investor coming to social investing. Earlier clients who came to social investing when it was quite new and iconoclastic were more committed to social investing and wanted to engage in a range of social investment options, from social screening to alternative investing. However, now that social screening is more accepted among mainstream investors, there is a "softening on the margin" of new clients who are reluctant to engage in investments that are still regarded as relatively risky. He believes that the size of funds committed to alternative investing may be increasing in absolute terms but declining as a percentage of total social assets.

Promoting Alternative Investments

Development Lenders and Financial Professionals agree that Financial Professionals play a meaningful role in directing investment clients to alternative investments. As shown in Table VI, Development Lenders think that Financial Professionals are a significant source of referrals for individual investors but a very poor source of institutional investor referrals.

Financial Professionals see themselves as quite active in promoting alternative investments. Nearly two thirds of the respondents said that they, and not their clients, initiate interest in alternative investments. Based on the interviews, it appears that "initiating interest" entails presenting new clients with a questionnaire form that evaluates their interest in various investment services, including alternative investment options. If a client does not indicate an interest in alternative investments, the subject is usually not explored further. A minority of the Financial Professionals interviewed actively seek to develop client interest in alternative investments by providing ongoing information about these investments.

Although the majority of Development Lenders indicated in the questionnaire that Financial Professionals are an excellent or fair source of referrals, a significant portion of the interviewees expressed displeasure with what they see as a "lot of talk and little action" on the part of Financial Professionals when it comes to supporting alternative investing. There is a general sense that Financial Professionals benefit from the existence of the alternative investment market but do not do enough to support it via client referrals.

One community developer said he was confident of some professionals' commitment to alternative investments but sensed that they needed to establish their credibility and that of social investing within their firms before they could be as active in supporting alternative initiatives as they would like. Some Development Lenders felt that there is a lack of reciprocity in client referrals between themselves and Financial Professionals. One loan fund director said that, not only was he not getting reciprocal referrals from Financial Professionals to whom he had sent investors, but that the Financial Professionals were actually discouraging investors from alternative investments.

Other Development Lenders said that Financial Professionals will use their knowledge of alternative investments to attract clients to their social screening business but then fail to incorporate alternative investments in clients' social investment strategy. In those cases, practitioners of social screening would actually compete with alternative investing for investment funds rather than working in cooperation with each other. One alternative investment syndicator said that none of his investors had come to him through SIF investment professionals. On the contrary, he said, those investors who do invest with him usually do so against the advice of their financial advisors.

6 Obstacles to Alternative Investing

One of the objectives of this study is to identify the obstacles that prevent fuller participation in alternative investing. While Financial Professionals, Development Lenders, and Investors have decidedly different perspectives on alternative investments, each of the three groups agree that the most significant deterrents to investment are concerns over the investment *risk* of alternative investments and the *lack of information* about alternative investments. *Illiquidity* was also cited as a less frequent but nonetheless significant problem encountered by each group.

Table VII presents results of a question asking respondents to rate the frequency with which certain problems prevent them from investing in alternative investments. The individual and aggregate responses of the three major categories of survey respondents (Financial Professionals, Development Lenders, and Investors) are shown. For ease of interpretation, responses of *very often* and *occasionally* are combined.

The following section discusses some of the most frequently cited problems that survey respondents associate with alternative investments.

Private Placements

Many problems associated with alternative investments stem from their status as private placements. Most securities associated with portfolio investing are registered with the Securities and Exchange Commission and traded in public securities markets. The existence of a vast market of buyers and sellers ensures that these securities are highly liquid, well researched, readily priced, and efficiently administered.

However, the expense of registration limits it to issuers of large securities and effectively precludes participation by small securities issuers, including alternative investments. These smaller investments typically cannot be sold on public exchanges but are "privately placed" with investors. While private placement spares the expense of registration, it has other disadvantages.

Because alternative investments lack a public market, they are less liquid, more difficult to price, and administratively more cumbersome than publicly traded securities. Alternative investments are not unique in this respect. All private placements, regardless of social content, possess these characteristics. However, because alternative investments are typically smaller in size than traditional private placements, they suffer these woes disproportionately. Inexperience with private placements was cited as a frequent obstacle by many Investors and Financial Professionals. The challenge facing social investors is to exact the utmost flexibility from alternative investments within the constraints imposed by private placement.

Risk

Survey respondents all agreed that the most significant obstacle to alternative investments is risk. As shown on Table VII, ninety eight percent of the respondents said that concerns about investment risk *very often* or *occasionally* prevent investment in alternative projects. While virtually any investment entails some element of risk, social investing in general,

and alternative investing in particular, seem to be coupled with risk in people's minds.

As noted earlier, Investors expect to incur greater risk and lower return when dealing with social investments. They also consistently seem to prefer low risk alternative investments such as development banks and community loan funds, even if some of those investments offer below-market rates of return.

The perception that alternative investments entail a high degree of risk may, in part, be due to the tendency to view alternative investments monolithically. Socially responsible investments and alternative investments are often discussed as though they refer to only one type of investment. In fact, there is a multitude of investment options, each of which should be evaluated on the merits of its unique risk profile. Alternative investments in small businesses and new ventures are riskier than housing loans and consequently experience a much higher failure rate. But that is generally true for conventional investments as well as alternative investments and is not necessarily a function of the social nature of the investment. Investors should not assume equivalent risk among all alternative investments but be aware of the different risks of various investments and make decisions accordingly.

The risk of an alternative investment partly depends on how close the investor is to the investment. A direct loan or equity investment in a project exposes the lender to the most default risk, although that risk can be reduced by creating a diversified portfolio of discrete projects. A simpler way of creating diversification is by buying shares in a pooled fund that invests in a variety of alternative projects. The pooled fund spreads the risk over several investments, thereby minimizing the impact on the investor of the failure of any one project. A community loan fund is one form of a pooled investment fund, as are venture capital funds.

Many Development Lenders questioned the different standards by which risk is measured in alternative and conventional investments. Development banks and revolving loan funds in particular compare their low historical loan loss rates on affordable housing against the poor quality condominium and real estate lending that has devastated the savings and loan industry. They also point to the capital market volatility of recent years as a phenomonom that is absent from the alternative investment market.

One development lender said that the debate over the riskiness of alternative investments would be furthered by the production by investment professionals of information about the risk of their clients' conventional investment assets. He feels that a comparison of default rates on conventional real estate investments against investments in low income housing would help dispel the perception of extraordinary risk associated with alternative investments.

Information

Given the strong positive correlation between risk and uncertainty, it is not surprising that lack of information was second only to risk as an investment obstacle. Investors feel most acutely affected by the lack of information, although Financial Professionals also indicated that this is a major problem.

Development Lenders perceive information to be much less of an obstacle to investment than do other respondents.

Respondents expressed a need for different kinds of information. In some cases, survey respondents were simply asking for more effective communication of existing information. Even the most committed Investors and Financial Professionals complained of the enormous amount of time (and hence cost) of staying abreast of alternative investment information. Financial Professionals and Investors want a fast and reliable way to obtain information on alternative investment opportunities and investment rates. They particularly are seeking comparative information on investment rates, terms, and performance history of different alternative investments.

Individual investors want information on local investment opportunities and expressed a need to remain better informed on the social performance of their investments.

One of the most critical needs for information is the evaluation of alternative investment opportunities in the process known as due diligence. A very high percentage of Financial Professionals (85%) and Investors (89%) cited the cost of due diligence as an obstacle to investing. This type of financial analysis is beyond the scope of most investment professionals who are seeking an accessible and affordable means of analyzing alternative investments.

Liquidity

Survey respondents cited lack of liquidity as the third most common obstacle to investment in alternative investments. Ninety percent of Financial Professionals consider it a problem. Development Lenders indicate greater concern with illiquidity than do Investors.

The liquidity of an investment is measured by the rapidity with which it can be sold and converted into a cash equivalent. A liquid market also serves a vital function as a mechanism for pricing assets. Unlike alternative investments which are usually bought and held to maturity, purchasers of long term capital market instruments can sell their investment in the marketplace. Investment professionals who are reassured by this "exit option" object to being locked in to an investment for an extended period of time. As one portfolio manager said, "being able to bail out of a mistake easily is an important consideration to me."

As in talking about risk, it is important not to group all alternative investments together when discussing liquidity. Community development banks and credit unions offering demand deposits such as money market and checking accounts provide investors the most liquid of alternative investment options. Similarly, the liquidity of certificates of deposit at these same linked-deposit institutions is determined by the investor who selects the maturity of the investment. These types of linked-deposits are as liquid as their non-social counterparts. Some of the loan funds have responded to their investors' needs by offering demand provisions for investors who want to reserve the option of terminating their investment prior to maturity.

However, most alternative investments have as their goal the provision of long term capital to a business, housing, or land venture. While capital market liquidity

enables a match between long term borrowers and short term lenders in conventional investments, there is no equivalent market in alternative investments. Consequently alternative lenders seek funds that most closely match the lengthy maturity of their asset base. Short terms funds, while necessary and welcomed, are not a substitute for badly needed "patient capital". It is difficult to find individual or institutional funds that can be committed funds for 15 to 20 years with no "take out" possibility.

Financial Return

Non-competitive rates of return on alternative investments are not a primary concern of all survey respondents. Financial Professionals (92%) see concessionary returns as much more of a problem than do Investors (81%) or Development Lenders (61%).[9]

Return is understandably a sensitive issue to investment professionals whose competence is often evaluated on the basis of the returns on investments they recommend. Any investment professional whose performance is implicitly or explicitly compared to the return on non-subsidized portfolio investments will feel handicapped by the inclusion of below-market rate alternative investments in the portfolio.

As noted in Table II, individual investors appear more willing to accept a below-market rate of return on social investments than do institutional investors. Interviews with Financial Professionals revealed that individual investment clients are often willing to establish an arbitrary rate of return for their alternative investments that bears little relationship to the risk of the investment. By contrast, most institutional investors and their financial managers tend to be far more concerned about the relative risk and return on their investments as defined by strictly financial terms.

As with other aspects of alternative investments, it is important not to generalize about the returns on the many different kinds of investments that qualify as "alternative" but to disaggregate them according to their respective rates of return.

For example, a linked deposit in a community development bank may offer a rate comparable to a similar investment at a standard commercial bank and therefore is not "below-market." By contrast, com-

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[9] Much of the debate over rates of return on alternative investments is confused by different understandings of the term *market rate.* Classical finance teaches that the rate of return on an asset is a function of that asset's level of risk and the information and transactions costs associated with the investment. The market rate of return for each asset differs according to the riskiness of that asset. There is no single market rate of return for all assets.

For example, short term assets generally earn a lower rate of return than long term assets because they bear lower inflation risk. Similarly, a secured loan or an insured deposit should pay a lower rate of interest than an unsecured loan or uninsured deposit because of the lower level of risk borne by the lender.

While risk levels are theoretically assessed by an efficient market, "the market" is not always the impartial judge it is purported to be. For example, a housing loan in a low income neighborhood may be assigned a high level of risk and hence a high required rate of return. However, that risk assessment may be based more on the lender's assumptions about low income neighborhoods than on any objective measure of risk.

munity loan fund rates may match a particular benchmark such as U.S. Treasury bills but because the investment is higher risk, the lender is effectively subsidizing the investment. Other alternative investments seek to offer highly competitive returns. As one social venture capitalist said, his goal is to attract investors to his projects not because of their social attributes but because the investment has a superior expected rate of return.

However, many alternative investments are made with the full understanding and acceptance of the need for a subsidized investment. These investments make no pretense of offering anything resembling a market rate of return. They are projects that require concessionary financing and they seek investors accordingly. It should not be forgotten that the need for social and alternative investing exists precisely because there are worthy projects that do not meet conventional standards of financial return.

While "doing well by doing good" accurately describes the return that investors can expect from some social investments, it is not an appropriate aphorism for all investments. Many alternative investments offer investors the opportunity to "do well enough while doing good." Still others appeal to investors for whom simply doing good is sufficient investment incentive.

7 Obstacles as Perceived by Respondent Groups

When viewed in the aggregate, survey respondents cited risk, information, liquidity, and return as the most frequent obstacles to investing in alternative projects. However, when responses are examined in the disaggregate, distinct differences appear between Financial Professionals, Development Lenders, and Investors. The following section discusses the data presented in Tables VII and VIII.

Financial Professionals

Financial Professionals agree with other respondents about the types of problems associated with alternative investments but feel more strongly about the extent to which these problems prevent investment. They generally view each of the suggested obstacles as more frequent impediments than do Development Lenders or Investors.

In addition to the general problems of risk and information, at least half of the respondents in this group indicated that the cost of performing due diligence and the fact that alternative investments are not recommended by their firm are problems that they experience *very often.* Non-competitive rates of return on alternative investments are more frequently a problem for Financial Professionals than for other groups. Also, as seen earlier in the hypothetical investment scenarios, Financial Professionals are most frequently concerned about liquidity. Issues of legal liability and compatability with investor's investment objectives were of more frequent concern to Professionals than others. While the lack of commissions and sales fees on alternative investments is of more relative importance to Professionals, it does not rank as one of their most important obstacles to investment.

Table VIII breaks out the responses of the four different types of Financial Professionals included in this category. The differences that emerge are largely a function of the respective roles that each type of Financial Professional plays with the investment client, their relationship with their employing organization, and the structure of their compensation.

For example, while the absence of commissions or fees on alternative investments is not a primary impediment to Financial Professionals as a whole, it ranks as the third most common concern of brokers. Only risk and information are more frequent problems. This is not surprising, given that brokers are compensated by fees generated by the sale of financial assets. Relative to other Financial Professionals, brokers are more often concerned about tax law uncertainty and the fact that alternative investments are not recommended by their firms. Brokers are less often concerned than their colleagues about factors such as liquidity, asset pricing, and the compatability of alternative investments with a client's investment objectives.

Financial planners and advisors who work closely with individual clients on their overall financial profile are very frequently concerned with issues such as compatability of alternative investments with clients' investment objectives, and the ability to monitor the social performance of an asset. Lack of experience with private placements is a more common obstacle to planners and advisors than to other Financial Professionals. Of all the

investment practitioners, they are most likely to be hampered by the lack of their employing firms' recommendation of alternative investments. And they are also adversely affected by the lack of commissions and fees on alternative investments, albeit to a lesser extent than brokers.

Together with risk, the most frequently encountered problem for investment managers is liquidity. Every investment manager cited risk and liquidity as posing an obstacle to alternative investing on at least some occasions. Investment managers seem to be less affected by almost all other issues listed than other Financial Professionals. Given that they are compensated on the basis of the size of assets under management, lack of sales commissions is rarely a problem for investment managers. Similarly, the lack of employer recommendation of an asset is not an impediment to alternative investing. Investment managers are also relatively less concerned about social monitoring, the rate of return on alternative investments, and tax law uncertainty.

Given the small number of mutual funds participating in this survey, it is difficult to draw general conclusions about this category of Financial Professionals. Based on the available data, however, it appears that mutual funds are likely to be obstructed by issues of liquidity, pricing, and compatability of alternative investments with clients' investment objectives. Tax law uncertainty and firm recommendation were not reported as obstacles by mutual funds.

Development Lenders

Development Lenders agree with other survey participants that concern over investment risk is the most prevalent problem with alternative investments. Lack of adequate information and illiquidity are seen as secondary but equally problematic issues. In general though, Development Lenders' perception of factors preventing investment in alternative projects is distinguished by one main characteristic.

Development Lenders consistently perceive the suggested investment obstacles as less problematic than do other respondents. While they usually agree on the nature of the problems, as indicated by their rank ordering of the issues, they generally disagree with Financial Professionals and Investors as to the extent to which many of the suggested issues prevent people from selecting alternative investments.

While Development Lenders agree with other respondents about the problems posed by risk, information, and liquidity, they are at odds as to the extent to which other issues inhibit investment. The most significant discrepancies in perception between Development Lenders and other respondents is with regard to the frequency of problems of legal liability, pricing of the investment, due diligence costs, inexperience, and non-competitive returns. The fact that the sources of investment funds (i.e., Investors and Financial Professionals) and the users of these funds (Development Lenders) differ in their understanding of the extent of investment obstacles is itself a noteworthy problem.

Investors

Individual and institutional investors were unanimous in agreeing with other respondents about the problem that concerns over risk and inadequate information present to alternative investments.

However, they consider the inability to monitor an investment's social performance as frequent a problem as the first two. When looking at the intensity with which each of these obstacles is felt by Investors (as determined by how often Investors said a problem *very often* prevents investment), lack of adequate information ranked highest, followed by lack of private placement experience and an inability to monitor an investment's social performance.

Thus, relative to Financial Professionals and Development Lenders, Investors perceive more frequent problems with alternative investments than do Development Lenders, but they differ greatly from Financial Professionals in terms of the issues that concern them. Investors seem to be more concerned with their lack of private placement experience and the social integrity of the investment than with the more technical aspects of investing that concern Financial Professionals.

8 Increasing Participation

It is clear from the preceding sections that the obstacles associated with alternative investments include excessive risk, lack of information, illiquidity, below-market rates of return, legal obstacles, and difficulty in monitoring social performance. Therefore, it can be expected that alternative investments would be more attractive to investors if they were less risky, more liquid, better researched, more lucrative, and acceptable for recommendation by financial services firms. In short, the ideal alternative investments would behave like a conventional capital market security but finance socially beneficial projects.

The following recommendations on ways to increase participation in alternative investing acknowledge the realities facing these investments. The market for alternative investments exists precisely because there are many worthy social investments that do not fulfill conventional investment requirements. Were these projects to conform to conventional standards of scale, risk and return, and liquidity, they would be able to meet their financing needs through conventional capital markets mechanisms. However, because alternative investments are "alternative" in both investment form and social content, they must be treated differently than standard investments.

Acknowledging the special nature of alternative investments does not deny the possibility for substantial change in the market for alternative investing. Much of that change however, will come from a shift in attitude toward alternative investments. Although alternative investments have existed for a long time, widespread public interest and acceptance of the concept of addressing social concerns through private investment capital is fairly new. As has been proven by socially screened portfolios, not all social investments exact a financial penalty. However, the return on many alternative investments market cannot be measured solely in financial terms. Growth of the alternative investment market depends on redefining the concept of an acceptable return on investment so that it includes the social return of an investment.

The following section presents respondents' suggestions for ways of increasing participation in alternative investments. It is interesting to note that, while most of the problems that respondents identified with alternative investments were of a technical nature, their specific suggestions for increasing participation in alternative investments focused on improving information, communication, public awareness, and education about alternative investments.

Information

The most common suggestion for overcoming resistance to alternative investing is to provide more information. While alternative investment organizations may feel that they produce ample information about their investment projects, investors and investment professionals feel they are not getting enough, in a form that they can easily use. Improving the quality and quantity of existing information is the first step in filling the demand.

Respondents said they need a simple way of finding out about the existence of investment opportunities and about the terms under which they can invest. While a detailed directory of investments was

suggested by some, financial professionals in particular feel they need a time-sensitive resource and suggested more use of electronic communication. A toll-free number giving rates on various development bank and credit union accounts, and on different loan fund investments was suggested. Respondents asked that information be produced in as standardized a form as possible, but not at the cost of eliminating the flexibility offered by many alternative investments.

The idea of an information clearinghouse was very popular. In addition to listing current investment information, survey respondents asked for historical information on loan loss rates and performance. Financial professionals emphasized the need for financial information but investors are very concerned about information on the social aspects of investments, both in anticipation of investing and after having made an investment.

In addition to improving the delivery of existing information, survey participants asked for the production of new information. Several areas of research were suggested. Further work needs to be done on understanding ways for increasing liquidity in the alternative investment market, on producing due diligence information, and on investigating legal aspects such as investment liability and the use of retirement assets in alternative investing .

Education

When asked what they could do to increase investment in alternative investments, financial professionals consistently answered that they could do more to educate themselves, their clients, and their firms. Educational ideas included producing generic explanatory information about alternative investments and holding more regional conferences and workshops that focus on local investment opportunities. Those who suggested education as a solution recognize that, in order to be effective, education about the financial aspects of alternative investments cannot be divorced from education about the social purpose of the investments.

While socially screened mutual funds have won wide public acceptance because of their credible investment performance, the same kind of progress has not been made in educating the public about alternative investing. Survey participants said there should be much more emphasis on creating public awareness of alternative investments. They suggested more coverage in the popular media, and greater emphasis on public relations in general. Given the strong personal and emotional appeal of alternative investments, it is important to emphasize the social impact of the programs.

Some investment professionals acknowledged a potential competitive business advantage in offering alternative investments. As competition for socially responsible investment services increases, an alternative investment capability distinguishes those professionals in a field of financial service firms offering only social screening.

Communication and Cooperation among SIF Members

Many survey participants stressed the need for greater cooperation and communication among members of the Social Investment Forum. The SIF should take

advantage of its diverse membership by maximizing the occasion for dialogue and exchange among members.

Development lenders feel they have a lot to learn from investment professionals about what investors want to know about their projects, and how best to communicate it to them. They also want to better understand the needs of financial professionals so that they may work more closely with them and develop more appropriate investment options. It was suggested that the SIF sponsor small working meetings of development lenders, financial professionals, and investors aimed at understanding their respective needs and capabilities and developing appropriate investment strategies.

Development lenders also said that financial professionals could be more active in directing appropriate individual and institutional investment clients to their organizations. One respondent suggested that investment in alternative investments should be made a membership requirement of the SIF.

Creating Demand

Much of the discussion on expanding the market for alternative investment concentrates on improving the quality of the vehicles by which investors can place funds with these projects. The emphasis frequently is on improving the mechanical conduits by which investment capital will find its ways to worthy social investment projects. It is assumed that sufficient demand for alternative investments exists, but that the demand is being thwarted by the lack of smooth financial intermediation. That analysis supports the idea of developing the technical and mechanical aspects of alternative investing.

A different analysis suggests that the way to expand the alternative investment market is by developing demand for these investments. Under this scenario, effort should be directed toward increasing demand for alternative investments and letting the private market do the work of developing the means by which to satisfy that demand. Were there a sufficient supply of capital seeking alternative investment opportunities, the private sector would likely develop solutions to the technical obstacles preventing that investment.

The South African divestment movement provides a contemporary illustration of how market mechanisms will respond to sufficient client demand for investment services. In the early stages of the divestment campaign, one of the most frequently cited obstacles to divestment was the absence of portfolio managers capable of managing a South Africa-free portfolio. Investment managers themselves were unwilling to manage such portfolios because of their lack of information about companies' South African activities, the difficulty of monitoring changes in company behavior, inexperience with divested portfolios, and fears about the effect of divestment on the portfolios' performance.

It was not until investment managers were threatened with the loss of significant amounts of business from institutional clients acting under divestment mandates that they began offering South Africa-free investment services. With the South Africa-free market now valued at hundred of billions of dollars, it is the rare financial manager who is not capable of managing a South Africa-free portfolio. Obstacles of information, performance, and risk were

overcome with the emergence of significant demand for South Africa-free investment services.

Admittedly, the South Africa example is not entirely comparable to the alternative investment situation as alternative investments are not seeking to replicate the performance of standard market instruments. Nonetheless, the basic analogy is valid. There are many legitimate reasons that financial institutions do not offer alternative investment services. However, were sizeable demand for this service to develop, it is highly probable that this situation would change. Perhaps current efforts should be directed at increasing the demand for alternative investments, after which issues of intermediation will more readily be addressed.

While individual investors and religious organizations are currently the largest investors in alternative investment vehicles, the growth of the market depends on the participation of large institutional investors. Those institutions that are engaged in alternative investments treat their financial resources as one of the means by which they can directly or indirectly further their own mission and make a significant social contribution.

A union that commits a portion of its assets to an economic development project employing its members; a tax-exempt educational institution that makes a "payment in lieu of taxes" in the form of an investment in local development efforts; a bank that makes below-market rate development loans as part of a linked-deposit agreement; a foundation that purchases a building to house a grantee organization: these are all examples of alternative investments that are consistent with each organizations' function and which collectively create a significant demand for alternative investments. In addition to these private and non-profit endeavors, the government has a role to play in suppporting alternative investments through tax credits, linked development deposits, and permanent capital grants.

The benefit of such institutional investing lies not only in the direct dollar value of the investment but in the multiplier effect that each investment has on society. Each investment contributes to the development of a performance history, development expertise and track record, and credibility of the sponsoring alternative investment, thereby building a foundation of security upon which other more mainstream institutions can build. For it is the corporation informing its shareholders of its investment, the financial institution notifying its clients, and the foundation reporting its actions to other foundations that sets an example, encourages like action, and eventually turns the novel into the norm.

9 Appendices

Appendix 1: Tables

Tables in this section are based on responses to the written questionnaire that was sent to 388 Social Investment Forum members and friends. The categories and respective numbers of the 114 respondents are as follows:

Questionnaire Respondents

Types of Respondents	*Number*
1. Financial Professionals (57)	
Brokers	20
Financial Advisors & Planners	22
Investment Managers	10
Mutual Funds	5
2. Development Lenders (27)	
Loan Funds	15
Banks (Commercial & Investment)	4
Investment Syndicators	4
Credit Unions	2
Community Developers	2
3. Investors (24)	
Individual	19
Institutional	5
4. Other (6)	6
TOTAL	114

Given the small size of some of the responding groups, data presented in the tables as percentages can be misleading. So as to avoid misrepresentation or distortion of the survey results, all data from the questionnaire are presented in both absolute numbers and percentages. Numbers indicate affirmative responses to each question. Percentages are the ratio of those who answered the question affirmatively to all those who answered that particular question.

For example, 36 Financial Professionals may have answered a question affirmatively and they represent 75% of the respondents to the question. The remaining 25% of the respondents are the 12 Financial Professionals who answered the question negatively. Thus, in total, only 48 of the 57 Financial Professionals who filled out the questionnaire answered that particular question. The nine who did not complete the question are not factored into the responses.

Each table heading directs the reader to the location of the question in the questionnaire. For example, Table III (P12,Q7) presents responses to Question 7 on Page 12.

Appendix 2: Sample Questionnaire

A copy of the survey questionnaire is attached.

TABLE IA (P4,Q1&3):

DEVELOPMENT BANK

	-- Respondents Answering Yes --	
	Financial Professionals	*Investors*
(1) WOULD YOU OR YOUR CLIENTS MAKE A DEPOSIT IN THIS BANK?	96% (53)	88% (21)
(2) WOULD THE FOLLOWING CHANGES MAKE YOU MORE LIKELY TO DEPOSIT FUNDS?		
Government provides added guarantees	75% (36)	55% (11)
Depositors can target loan programs	64% (30)	50% (11)
Affiliation with training & development	62% (28)	71% (15)
Bank is minority owned	53% (24)	45% (9)
Commissions earned on referrals	46% (22)	5% (1)
Depositors may pool deposits	45% (21)	43% (9)
Rural economic development focus	41% (19)	45% (9)
National lending program	41% (18)	14% (3)
Deposits may be used as collateral	37% (15)	50% (10)
Institution is a credit union	18% (8)	22% (4)

TABLE IB (P2,Q1&3):

LOAN FUND

	-- Respondents Answering Yes --	
	Financial Professionals	*Investors*
(1) WOULD YOU OR YOUR CLIENTS INVEST IN THIS LOAN FUND?	74% (40)	75% (18)
(2) WOULD THE FOLLOWING CHANGES MAKE YOU MORE LIKELY TO INVEST?		
Market rate of return	83% (43)	60% (12)
Fund guarantee	82% (40)	89% (17)
Available secondary market	71% (36)	50% (10)
Existing loan loss reserve	69% (33)	84% (16)
One year sell-back option	48% (24)	32% (6)
Geographically diversified properties	44% (21)	32% (6)
Invests in co-op businesses	17% (8)	42% (8)
For-profit developers	11% (5)	0% (0)

TABLE IC (P3,Q1&3):

START-UP ENTERPRISE

	-- Respondents Answering Yes --	
	Financial Professionals	*Investors*
(1) WOULD YOU OR YOUR CLIENTS INVEST IN THE STOCK OF THIS COMPANY?	42% (22)	22% (8)
(2) WOULD THE FOLLOWING CHANGES MAKE YOU MORE LIKELY TO INVEST?		
Minimum investment is $5,000	78% (39)	75% (15)
Two year history of profits	77% (36)	65% (13)
Demonstrated management competence	72% (33)	77% (17)
Breakeven sales within a year	70% (33)	71% (15)
Shares can be traded after a year	69% (31)	39% (7)
Insurance company has 30% investment	54% (26)	60% (12)
Company will go public in five years	50% (22)	22% (4)
Investment is made via an intermediary	49% (22)	44% (8)
Limited partnership structure	31% (14)	11% (2)
Cash dividends expected	27% (12)	35% (7)
Investors are Board members	23% (10)	21% (4)

TABLE II (P9,Q11):

DO YOUR CLIENTS EVER CHOOSE TO MODIFY THEIR INVESTMENT OBJECTIVES TO ACCOMMODATE THEIR SOCIAL CONCERNS?
(Asked of Financial Professionals)

	Often	*Occasionally*	*Never*
Individual Investors			
Clients accept greater risk	7% (3)	78% (36)	15% (7)
Clients agree to below-market return	9% (4)	72% (34)	19% (9)
Institutional Investors			
Clients accept greater risk	0% (0)	41% (9)	59% (13)
Clients agree to below-market return	0% (0)	39% (9)	61% (14)

TABLE III (P12,Q7):

WHICH OF THE FOLLOWING FACTORS ATTRACT INVESTORS TO YOUR ORGANIZATION?
(Asked of Development Lenders)

	Yes	*No*
Individual Investors		
Reputation	89% (16)	11% (2)
Social Objectives	84% (16)	16% (3)
Operating History	79% (11)	21% (3)
Investment Program	79% (11)	21% (3)
Financial Return	75% (12)	25% (4)
Security	43% (6)	57% (8)
Liquidity	38% (5)	62% (8)

Institutional Investors		
Reputation	89% (16)	11% (2)
Social Objectives	85% (17)	15% (3)
Operating History	75% (12)	25% (4)
Investment Program	73% (11)	27% (4)
Financial Return	50% (9)	50% (9)
Security	44% (7)	56% (9)
Liquidity	27% (4)	73% (11)

TABLE IV (P8,Q7):

WHICH OF THE FOLLOWING STRATEGIES DOES YOUR FIRM OFFER TO HELP CLIENTS MEET THEIR SOCIAL INVESTMENT OBJECTIVES?
(Asked of Financial Professionals)

	---- Often or Occasionally ----	
Social Investment Strategies	*Individual Investors*	*Institutional Investors*
Seeking investments in publicly traded corporate securities that meet investor's social criteria.	83% (38)	78% (25)
Avoiding publicly traded corporate securities that conflict with investor's social criteria.	81% (38)	74% (26)
Investing in *non*-publicly traded securities or deposits that satisfy conventional risk/return requirements and finance projects or businesses of social value.	70% (33)	65% (20)
Identifying philanthropic organizations seeking charitable donations.	60% (28)	38% (12)
Sponsoring or voting shareholder resolutions on social issues.	52% (25)	43% (13)
Investing in *non*-publicly traded securities or deposits that do *not* satisfy conventional risk/return requirements and finance projects or businesses of social value.	40% (19)	28% (9)

TABLE V (P10,Q15):

HOW OFTEN HAVE YOU PLACED CLIENTS IN THESE AI WITHIN THE PA[illegible] 12 MONTHS?
(Asked of Financial Professionals)

	------- Frequently or Occasionally -------				
Alternative Investments	*All Financial Professionals*	*Brokers*	*Financial Advisors & Planners*	*Investment Managers*	*Mutual Funds*
Deposits in minority-owned or neighborhood development banks	51% (21)	20% (3)	60% (9)	75% (6)	100% (3)
Revolving loan or loan guarantee debentures	48% (19)	13% (2)	50% (7)	88% (7)	100% (3)
Deposits in credit unions	38% (15)	7% (1)	53% (8)	50% (4)	67% (2)
Publicly offered limited partnership	38% (16)	27% (4)	59% (10)	29% (2)	0% (0)
Direct equity investment	29% (12)	14% (2)	53% (9)	14% (1)	0% (0)
Privately placed limited partnership	22% (9)	7% (1)	29% (5)	29% (2)	33% (1)
Direct loan to project or enterprise	18% (7)	0% (0)	27% (4)	29% (2)	33%(1)

TABLE VI (P12,Q6):

HOW WELL DO THESE REFERRAL SOURCES HELP YOU IDENTIFY INVESTORS?
(Asked of Development Lenders)

	Excellent	*Fair*	*Poor*
Individual Investors			
Direct solicitation	67% (8)	25% (3)	8% (1)
Free promotion/news coverage	40% (6)	40% (6)	20% (3)
Brokers/financial planners	40% (6)	33% (5)	27% (4)
Referrals through supporters/friends	40% (6)	13% (2)	47% (7)
Speaking engagements	36% (5)	21% (3)	43% (6)
Paid advertising/public relations	17% (2)	25% (3)	58% (7)
Institutional Investors			
Referrals through supporters/friends	69% (11)	6% (1)	25% (4)
Direct solicitation	60% (9)	33% (5)	7% (1)
Speaking engagements	40% (6)	13% (2)	47% (7)
Free promotion/news coverage	31% (5)	44% (7)	25% (4)
Paid advertising/public relations	17% (2)	25% (3)	58% (7)
Brokers/financial planners	7% (1)	7% (1)	86% (12)

TABLE VII (P5,Q2):

HOW FREQUENTLY DO THE FOLLOWING PROBLEMS PREVENT YOU OR YOUR CLIENTS FROM SELECTING AI?
(All Respondents)

Problems	*All*	*Financial Professionals*	*Development Lenders*	*Investors*
Concern over investment risk	98% (88)	98% (49)	95% (18)	100% (21)
Lack of adequate information to make a decision	93% (83)	94% (45)	84% (16)	100% (22)
Lack of liquidity	86% (80)	90% (47)	84% (16)	77% (17)
Non-competitive return on investment	83% (73)	92% (45)	61% (11)	81% (17)
Cost of performing due diligence	78% (64)	85% (39)	50% (9)	89% (16)
No means to monitor investment's social performance	75% (65)	72% (34)	53% (10)	100% (21)
Lack of experience with private placement	71% (58)	74% (34)	47% (8)	84% (16)
Incompatible with investor's investment objectives	69% (59)	84% (38)	63% (12)	43% (9)
Difficult to price over the life of the investment	64% (54)	74% (35)	32% (6)	68% (13)
Legal liability issues	63% (55)	76% (37)	26% (5)	65% (13)
Not recommended by the investment firm	56% (49)	65% (32)	42% (8)	45% (9)
Discouragement from financial professionals	52% (44)	51% (23)	53% (10)	55% (11)
Uncertainty about tax laws affecting AI	48% (41)	52% (24)	32% (6)	55% (11)
No broker commission or sales fees on AI	48% (41)	63% (31)	44% (8)	11% (2)
Difficulty in understanding AI	47% (39)	50% (23)	50% (9)	37% (7)

TABLE VIII (P5,Q2):

HOW FREQUENTLY DO THE FOLLOWING PROBLEMS PREVENT YOU OR YOUR CLIENTS FROM SELECTING ALTERNATIVE INVESTMENTS?
(Financial Professionals Only)

	------- Frequently or Occasionally -------				
Problems	*All Financial Professionals*	*Brokers*	*Financial Advisors & Planners*	*Investment Managers*	*Mutual Funds*
Concern over investment risk	98% (49)	100% (17)	95% (20)	100% (8)	100% (4)
Lack of adequate information to make a decision	94% (45)	88% (15)	100% (20)	88% (7)	100% (3)
Non-competitive return on investment	92% (45)	94% (16)	95% (19)	75% (6)	100% (4)
Lack of liquidity	90% (47)	83% (15)	90% (19)	100% (9)	100% (4)
Cost of performing due diligence	85% (39)	87% (13)	90% (18)	75% (6)	67% (2)
Incompatible with investor's investment objectives	84% (38)	73% (11)	95% (18)	75% (6)	100% (3)
Legal liability issues	76% (37)	76% (13)	81% (17)	63% (5)	67% (2)
Difficult to price over the life of the investment	74% (35)	63% (10)	80% (16)	75% (6)	100% (3)
Lack of experience with private placement	74% (34)	69% (11)	84% (16)	63% (5)	67% (2)
No means to monitor investment's social performance	72% (34)	63% (10)	95% (19)	38% (3)	67% (2)
Not recommended by the investment firm	65% (32)	76% (13)	86% (18)	13% (1)	0% (0)
No broker commission or sales fees on AI	63% (31)	88% (15)	67% (14)	13% (1)	33% (1)
Uncertainty about tax laws affecting AI	52% (24)	73% (11)	50% (10)	38% (3)	0% (0)
Discouragement from financial professionals	51% (23)	53% (8)	63% (12)	25% (2)	33% (1)
Difficulty in understanding AI	50% (23)	50% (8)	58% (11)	38% (3)	33% (1)

Social Investment Forum Survey on Alternative Investments

ALTERNATIVE INVESTMENTS (AI) support social products or purposes through direct debt or equity investments, or deposits with specialized financial intermediaries. AI do not include publicly traded securities even if these securities satisfy certain social investment screens.

The purpose of this survey is to determine attitudes toward and experience with socially responsible Alternative Investments (AI). This survey is meant to identify the obstacles to participation in AI and to solicit recommendations for ways to overcome these obstacles. The survey questions are addressed to you as a representative of your firm or organization. Responses should reflect attitudes and experiences that are shared in your workplace, even though these may not always be the same as your personal views.

Respondents will receive a free copy of the report analyzing our findings.

(Names will be kept confidential.)

Name_____ _____

Name of firm or organization_____

Title or position of survey respondent_____

Social Investment Forum member:.....Yes, Individual membership.... ☐ No..☐
Organization membership..☐

Please check ONE description below that best represents your primary business:

INVESTOR SERVICES	AI INITIATIVES	OTHER
Brokerage..... ☐	Community developer... ☐	Research / information. ☐
Financial planning..... ☐	Loan fund..... ☐	Institutional investor... ☐
Financial advisor..... ☐	Foundation..... ☐	Individual investor..... ☐
Investment management..... ☐		University..... ☐
Banking ..... ☐		Church..... ☐
Mutual/money market fund. ☐		Other, please specify.. ☐
Investment syndication..... ☐		_____
Credit Union..... ☐		

All respondents are to complete Section I and Section IV.
If your primary business is INVESTOR SERVICES, you should also complete Section II .
If your primary business is AI INITIATIVES, you should also complete Section III.

Section I: Alternative Investments

To be completed by all respondents.

We have created three hypothetical Alternative Investments (AI) which meet our definition of AI on the previous page. Please read each scenario and answer the questions about each investment. If you service investors, your answers should reflect your behavior on behalf of your clients.

A. INVESTMENT SCENARIO #1: LOAN FUND

A community loan fund is dedicated to financing affordable housing. The fund has a three-year operating history and a loan loss rate of less than 1.5% annually. Housing properties are located in a local minority urban neighborhood that has been largely neglected by conventional creditors. Loans are made directly to non-profit developers. The fund is financed by loans from individuals and institutions with terms of 1 to 5 years and offering a maximum return of 1% below U.S. Treasury securities of equivalent term. Investors may choose to accept lower returns. Investments are unsecured, there is no secondary market, and no possibility for early retirement of the investment. Minimum investment: $1,000.

1. WOULD YOU OR YOUR CLIENTS INVEST IN THIS LOAN FUND?

Yes, for my personal account...☐ my institution's account...☐ certain clients, only...☐

No..☐

EXPLAIN YOUR ANSWER:_____

_____

2. WHAT FACTORS MIGHT BE OBSTACLES TO YOU OR YOUR CLIENTS MAKING THIS INVESTMENT?

_____

_____

3. WOULD ANY OF THE FOLLOWING CHANGES TO INVESTMENT SCENARIO #1 MAKE IT MORE LIKELY THAT YOU OR YOUR CLIENTS WOULD INVEST?

(Consider each idea as independent of the others.)	More likely to invest: Yes	No
a. Properties are geographically diversified	☐	☐
b. Market-rate of return	☐	☐
c. Major investor has made a capital grant that acts as a loan loss reserve	☐	☐
d. Fund is guaranteed	☐	☐
e. The loan fund invests in cooperatively-owned businesses	☐	☐
f. A secondary market is available	☐	☐
g. Project developers are for-profit	☐	☐
h. Investment may be sold back to the fund at a discount after 1 year	☐	☐

B. INVESTMENT SCENARIO #2: START-UP ENTERPRISE

A manufacturer of energy conservation devices operates in an urban area of high unemployment. Although this is a start-up business, management has extensive experience in the industry. Management is committed to providing employment to local residents and has instituted progressive employment benefits, including job training and an employee profit-sharing plan. The company has developed a new temperature control device that will significantly reduce residential energy costs. The business plan shows that the company anticipates profits in its third year of operation. Management intends to reinvest all excess capital in the business for at least the first five years. The company is seeking $2,000,000 in common stock with minimum investment units of $100,000. As a start-up, the company has had difficulty obtaining financing from conventional sources, although the projected return is competitive with similar technological manufacturing investments.

1. WOULD YOU OR YOUR CLIENTS INVEST IN THE STOCK OF THIS COMPANY?

Yes, for my personal account...☐ my institution's account...☐ certain clients, only...☐
No..☐

EXPLAIN YOUR ANSWER:_____

_____

2. WHAT FACTORS MIGHT BE OBSTACLES TO YOU OR YOUR CLIENTS MAKING THIS INVESTMENT?

_____

_____

3. WOULD ANY OF THE FOLLOWING CHANGES TO INVESTMENT SCENARIO #2 MAKE IT MORE LIKELY THAT YOU OR YOUR CLIENTS WOULD INVEST?

(Consider each change as independent of the others.)	More likely to invest: Yes	No
a. The company has been operating at a profit for two years	☐	☐
b. The investment is made indirectly through a financial intermediary	☐	☐
c. As an investor you become a member of the Board of Directors	☐	☐
d. A major insurance company has put up at least 30% of the equity	☐	☐
e. Management intends to take the company public in five years	☐	☐
f. Minimum investment is $5,000	☐	☐
g. Investment is a limited partnership	☐	☐
h. Investment shares can be traded after 1 year	☐	☐
i. Preproduction orders promise breakeven from sales within 1 year	☐	☐
j. Management competence has been demonstrated over five-years of operations	☐	☐
k. Management plans to pay out excess capital as cash dividends	☐	☐

C. INVESTMENT SCENARIO #3: DEVELOPMENT BANK

A federally-chartered commercial bank located in a largely disinvested low- to moderate-income urban community is committed to the economic and social development of the neighborhood. The bank advocates lending policies that enable local residents to obtain mortgages, home improvement, business and education loans. More traditional banks frequently refuse to consider these residents as eligible borrowers. The bank's lending portfolio has doubled in its five years in the neighborhood, and the bank reports a loan loss rate of less than 1.5% annually. Return on assets of 1% is consistent with the industry standard for banks of comparable size. As with all commercial banks, a portion of its deposits fund loans. Depositors choose from a variety of deposit accounts including short- and long-term Certificates of Deposit, Money Market Accounts, and Individual Retirement Accounts. Interest rates to depositors are competitive with the middle range of interest rates available on similar deposit accounts in other banks, and are nearer the top of the market for deposits of $100,000 or more. Minimum investment is $2,500 in a Money Market or CD. Each depositor is insured up to $100,000 by the F.D.I.C.

1. WOULD YOU OR YOUR CLIENTS MAKE A DEPOSIT IN THIS DEVELOPMENT BANK?

   Yes, for my personal account...☐ my institution's account...☐ certain clients, only...☐
   No.☐

   EXPLAIN YOUR ANSWER:_____

   _____

2. WHAT FACTORS MIGHT BE OBSTACLES TO YOU OR YOUR CLIENTS MAKING THIS INVESTMENT?

   _____

   _____

3. WOULD ANY OF THE FOLLOWING CHANGES TO INVESTMENT SCENARIO #3 MAKE IT MORE LIKELY THAT YOU OR YOUR CLIENTS WOULD INVEST?

(Consider each change as independent of the others.)	More likely to invest: Yes	No
a. This is a credit union	☐	☐
b. The bank has a national lending program	☐	☐
c. Deposits may be used as collateral for depositors who borrow	☐	☐
d. Bank is affiliated with job training and enterprise development organizations	☐	☐
e. Bank is minority-owned	☐	☐
f. The bank focuses on rural economic development	☐	☐
g. Depositors can target funds to particular loan programs (e.g., housing, business)	☐	☐
h. Government provides added guarantees on deposits in this bank	☐	☐
i. Financial professionals earn commission for referring depositors to the bank	☐	☐
j. Groups of depositors may pool funds to bring deposit to $100,000	☐	☐

D. AI EXPERIENCE

Please consider your or your firm's experience with actual AI (not our hypothetical scenarios) as you answer the rest of the questions in Section I. *(Refer again to our definition of AI on page 1.)*

1. WHICH THREE OF THE FOLLOWING DO YOU THINK ARE THE PRINCIPLE REASONS TO INVEST IN AI? *(Write #1 in the box next to the most important reason, #2 next to the second, and #3 next to the third.)*

Investing to reflect personal values and activities..... ☐
Making a direct investment..... ☐
Supporting a private sector initiative..... ☐
Earning acceptable financial return..... ☐
Solving a specific social problem (e.g. affordable housing, energy usage)..... ☐
Providing access to capital otherwise unavailable..... ☐
Other, please specify:_____ ☐

2. BASED ON YOUR EXPERIENCE, HOW FREQUENTLY DO THE FOLLOWING PROBLEMS PREVENT YOU OR YOUR CLIENTS FROM SELECTING AI?

	Problematic: Very often	Occasionally	Never
Lack of adequate information to make a decision.....	☐	☐	☐
Concern over investment risk.....	☐	☐	☐
Lack of liquidity.....	☐	☐	☐
Noncompetitive return on investment.....	☐	☐	☐
Discouragement from financial professionals.....	☐	☐	☐
Lack of experience with private placement.....	☐	☐	☐
Difficulty in understanding AI.....	☐	☐	☐
Cost of performing due diligence.....	☐	☐	☐
No means to monitor the investment's social performance.....	☐	☐	☐
Legal liability issues.....	☐	☐	☐
Not recommended by the investment firm.....	☐	☐	☐
No broker commission or sales fees on AI.....	☐	☐	☐
Incompatible with investor's investment objectives.....	☐	☐	☐
Uncertainty about tax laws affecting AI.....	☐	☐	☐
Difficult to price over the life of the investment.....	☐	☐	☐
Other, please specify:_____	☐	☐	

3. WHAT, IN YOUR OPINION, IS THE PRIMARY REASON NOT TO INVEST IN AI?

_____

_____

4. DO YOU BELIEVE THE FOLLOWING INNOVATIONS WOULD SUBSTANTIALLY INCREASE YOUR OR YOUR CLIENT'S PARTICIPATION IN AI?

	More investors: Yes	No
A uniform AI investment rating system	☐	☐
An independent clearing house for AI information	☐	☐
A trading exchange for AI securities	☐	☐
A marketing and public relations agency specializing in AI	☐	☐
A due diligence advisory firm	☐	☐
A pooled fund investing in diversified AI	☐	☐
Other, please specify:_____	☐	

5. WOULD YOU EXPECT THE FOLLOWING LEGISLATED INCENTIVES TO INCREASE YOUR OR YOUR CLIENT'S PARTICIPATION IN AI?

	More investors: Yes	No
Preferred tax treatment of losses	☐	☐
Preferred tax treatment of capital gains	☐	☐
Preferred tax treatment of income (i.e., interest & dividends)	☐	☐
Preferred tax treatment for accepting below-market rate	☐	☐
Government guarantees	☐	☐
Disapprove of all legislated incentives	☐	☐
Other, please specify:_____	☐	

6. AMONG THESE SOCIAL INITIATIVES, WHICH THREE DO YOU CONSIDER MOST IMPORTANT TO INVESTORS IN AI? *(Write #1 in the box next to the most important, #2 next to the second, and #3 next to the third.)*

Low- or moderate-income housing	☐
Rural economic development	☐
Urban economic development	☐
Worker-owned or cooperative enterprises	☐
Job training/self-employment programs	☐
Job creation/enterprise development	☐
Land trusts	☐
Other, please specify: _____	☐

7. WHAT WOULD ENCOURAGE YOU OR YOUR CLIENTS TO INVEST MORE IN AI?

_____

_____

To continue: Investor Services Sec.II, p.7, AI Initiatives Sec.III, p.11, all others, Sec.IV, p.13.

Section II: Client Investing Services

This section is to be answered only by respondents whose primary business is investor services.
Respondents representing AI initiatives, please skip to Section III, page 11.
All others, continue with Section IV, page 13.

Please describe the investing services offered by that part of your organization for which you have the most accurate information. Select ONE of these choices as the reference for your responses:

The entire organization..... ☐ My clients, only.... ☐
My division/department, only ☐ Other, please specify:_____ ☐

1. INDICATE THE GEOGRAPHIC AREA(S) IN WHICH YOUR FIRM IS REGISTERED OR OTHERWISE QUALIFIED TO WORK WITH INVESTMENTS:

Home state, exclusively..... ☐ National..... ☐
Regional..... ☐ International..... ☐

2. PLEASE PROVIDE THIS INFORMATION ABOUT YOUR FIRM:

	Individuals	Institutions
Total number of clients.....		
Total assets under management..	$	$
Median size of client portfolio....	$	$

3. WHAT ARE THE FIRM'S CRITERIA FOR ACCEPTING INVESTMENT CLIENTS?

	Minimum investment portfolio	Net worth or asset value
Individuals.....	$	$
Institutions.....	$	$

Other client acceptance criteria, please specify:_____

_____

4. DESCRIBE YOUR FIRM'S INVESTMENT GUIDELINES FOR CLIENT PORTFOLIOS:
(e.g., minimum holdings of cash equivalents, average portfolio maturity, minimum size of individual holdings as percent of the portfolio....)

Individuals_____

_____

Institutions _____

_____

If these guidelines are available in writing, we would appreciate your sending us a copy when you return the survey.

5. CHECK EACH DIRECT INVESTMENT OFFERED BY YOUR ORGANIZATION:

Equity investments in real estate..... ☐
Privately placed debt..... ☐
Venture capital..... ☐
No direct investment offered..... ☐
Other, please specify:_____ ☐

6. DOES YOUR FIRM ENGAGE IN SOCIALLY RESPONSIBLE INVESTING?

Yes. ☐ No. ☐, WHY?_____

Special note: If you work for an organization that DOES NOT engage in socially responsible investing (SRI), but you have interests in SRI as an individual, please check here ☐ *and answer questions about social investing based on your own experience.*
If neither you nor your organization engage in SRI, please continue with Section IV. page 13.

7. WHICH OF THE FOLLOWING STRATEGIES DOES YOUR FIRM OFFER TO HELP CLIENTS MEET THEIR SOCIAL INVESTMENT OBJECTIVES?

a. Sponsoring or voting on shareholder proxy resolutions on social issues.

	Often	Occasionally	Never		Often	Occasionally	Never
Individuals.....	☐	☐	☐	Institutions.....	☐	☐	☐

b. Avoiding publicly traded corporate securities that conflict with the investor's social criteria.

	Often	Occasionally	Never		Often	Occasionally	Never
Individuals.....	☐	☐	☐	Institutions.....	☐	☐	☐

c. Seeking investments in publicly traded corporate securities that meet the investor's social criteria.

	Often	Occasionally	Never		Often	Occasionally	Never
Individuals.....	☐	☐	☐	Institutions.....	☐	☐	☐

d. Investing in <u>non-publicly traded</u> securities or deposits that satisfy conventional risk/return requirements and finance projects or businesses of social value.

	Often	Occasionally	Never		Often	Occasionally	Never
Individuals.....	☐	☐	☐	Institutions.....	☐	☐	☐

e. Investing in <u>non-publicly traded</u> securities that DO NOT satisfy conventional risk/return standards but do finance projects or businesses of social value.

	Often	Occasionally	Never		Often	Occasionally	Never
Individuals.....	☐	☐	☐	Institutions.....	☐	☐	☐

f. Identifying philanthropic organizations seeking charitable donations.

	Often	Occasionally	Never		Often	Occasionally	Never
Individuals.....	☐	☐	☐	Institutions.....	☐	☐	☐

8. WHAT PERCENT OF YOUR FIRM'S CLIENTS INVEST IN SOCIAL ASSETS?

Individuals..[ ]% of firm's clients Institutions..[ ]% of firm's clients

9. TOTAL SOCIAL AND NONSOCIAL INVESTMENT ASSETS UNDER MANAGEMENT OR ADVICE:

	Nonsocial assets: Management	Advice	Social assets: Management	Advice
Individuals....	$	$	$	$
Institutions....	$	$	$	$

10. WHAT WOULD YOU SAY ARE THE FIVE MOST FREQUENTLY CITED SOCIAL INVESTING CONCERNS OF YOUR CLIENTS: *(Write #1 in the box next to the most frequent, #2 next to the second, and so on, up to #5.)*

South Africa..... ☐
Nuclear power..... ☐
Environment (e.g., pollution, energy, waste management...)..... ☐
Product quality and safety (e.g., tobacco, liquor, children's toys....)..... ☐
Animal rights..... ☐
Employment benefits (e.g., health plan, daycare...)..... ☐
Employment opportunity (e.g., EEOC, women, minorities...)..... ☐
Economic opportunity (e.g., job training, access to credit)..... ☐
Affordable housing..... ☐
International human rights..... ☐
Defense..... ☐
Corporate ethics..... ☐
Labor relations..... ☐
Other, please specify _____ ☐
No opinion..... ☐

11. DO YOUR CLIENTS EVER CHOOSE TO MODIFY THEIR INVESTMENT OBJECTIVES IN ORDER TO ACCOMMODATE THEIR SOCIAL CONCERNS?

	Individuals			Institutions		
	Often	Occasionally	Never	Often	Occasionally	Never
Clients accept greater risk.....	☐	☐	☐	☐	☐	☐
Clients agree to below market return.....	☐	☐	☐	☐	☐	☐
Other modifications:_____	☐	☐	☐	☐	☐	☐

12. WHAT PERCENT OF THE FIRM'S SOCIAL ASSETS ARE INVESTED IN AI?_____%
(Refer to our definition of AI, page 1)

13. FOR YOUR CLIENTS IN SOCIAL INVESTMENTS, WHAT PERCENT OF A SOCIAL PORTFOLIO IS TYPICALLY IN AI? Individuals _____% Institutions _____%

14. DO YOU OR YOUR CLIENT USUALLY INITIATE INTEREST IN AI? (Check one)

Client usually suggests AI to me..... ☐ Client seeks AI advice elsewhere..... ☐
I usually suggest AI to client..... ☐ Other, please specify: _____ ☐
Firm actively solicits interest in AI..... ☐

15. HOW OFTEN HAVE YOU PLACED CLIENTS IN THESE AI WITHIN THE PAST 12 MONTHS?:

	Frequently	Occasionally	Never
Revolving loan or loan guarantee debentures	☐	☐	☐
Deposits in minority-owned or neighborhood development banks	☐	☐	☐
Deposits in credit unions	☐	☐	☐
Privately placed limited partnership	☐	☐	☐
Publicly offered limited partnership	☐	☐	☐
Direct equity investment	☐	☐	☐
Direct loan to project or enterprise	☐	☐	☐
Other, please specify:_____	☐	☐	☐

16. DO YOU MAKE ANY OF THE FOLLOWING MODIFICATIONS IN YOUR CLIENT RELATIONSHIPS IN ORDER TO RECOMMEND AI?

	Always	Selectively	Never
Increase fees	☐	☐	☐
Omit or reduce commission/fees	☐	☐	☐
Request release from legal liability	☐	☐	☐
Exclude AI in evaluation of portfolio performance	☐	☐	☐
Require direct investment by the client rather than brokerage	☐	☐	☐
Modify client acceptance criteria	☐	☐	☐
Refer AI clients elsewhere	☐	☐	☐
Exclude AI assets from determination of portfolio market value	☐	☐	☐
Other, please specify:_____	☐	☐	

17.WHAT COULD YOU OR YOUR FIRM DO TO INCREASE INVESTMENT IN AI?

_____

Skip Section III and continue with Section IV, page 13.

Section III: Alternative Investment Initiatives

Only respondents whose primary business is AI initiatives should complete Section III.
All others, please continue with Section IV, page 13.

1. DESCRIBE YOUR ORGANIZATION: (e.g., social objectives, assets, services provided, results of operations...)

_____

_____

_____

When you return the survey, please enclose copies of any descriptive materials you send to prospective investors.

2. WHAT PERCENT OF FUNDS DO YOU OBTAIN FROM EACH OF THESE SOURCES?

	Dues	Deposits	Debt	Equity	Donations/Grants	TOTAL
Individuals	%	%	%	%	%	%
Religious Organizations	%	%	%	%	%	%
Foundations	%	%	%	%	%	%
Corporations	%	%	%	%	%	%
Financial Institutions	%	%	%	%	%	%
Public Funds	%	%	%	%	%	%
TOTAL	%	%	%	%	%	100%

3. DESCRIBE THE INVESTMENT TERMS AVAILABLE TO THOSE FINANCING YOUR START-UP COSTS OR CAPITAL BASE: (e.g., stock price, loan terms...)

Individuals_____

_____

Institutions_____

_____

4. HOW DO INVESTORS FUND YOUR ON-GOING PROGRAM? (e.g., support loan fund, deposits..)

Individuals_____

_____

Institutions_____

_____

5. FROM WHAT GEOGRAPHIC AREA(S) DO YOU OBTAIN FINANCIAL RESOURCES?

Local..... ☐ Regional..... ☐ National..... ☐

6. HOW WELL DO THESE REFERRAL SOURCES HELP YOU IDENTIFY INVESTORS?

	Individuals			Institutions		
Source of referrals:	poor	fair	excellent	poor	fair	excellent
Brokers/financial planners	☐	☐	☐	☐	☐	☐
Direct solicitation of the investors	☐	☐	☐	☐	☐	☐
Paid advertising/public relations	☐	☐	☐	☐	☐	☐
Free promotion/news coverage	☐	☐	☐	☐	☐	☐
Speaking engagements	☐	☐	☐	☐	☐	☐
Referral through supporters/friends	☐	☐	☐	☐	☐	☐

7. WHICH OF THE FOLLOWING FACTORS ATTRACT INVESTORS TO YOUR ORGANIZATION:

	Individuals		Institutions	
Attractive to investors:	Yes	No	Yes	No
Financial return	☐	☐	☐	☐
Liquidity	☐	☐	☐	☐
Security	☐	☐	☐	☐
Operating history	☐	☐	☐	☐
Reputation	☐	☐	☐	☐
Social objectives	☐	☐	☐	☐
Investment program	☐	☐	☐	☐

8. WHAT DO YOU THINK IS THE PRIMARY REASON INVESTMENT PROFESSIONALS MIGHT NOT RECOMMEND YOUR PROJECT?

_____

_____

9. HOW COULD INVESTMENT PROFESSIONALS WORK MORE EFFECTIVELY WITH YOU OR YOUR ORGANIZATION?

_____

_____

Continue with Section IV, next page.

Section IV: Conclusion

To be completed by all respondents.

PLEASE SUGGEST WAYS THE SOCIAL INVESTMENT FORUM MIGHT IMPROVE THE FLOW OF FUNDS TO ALTERNATIVE INVESTMENTS.

_____

_____

PLEASE MAKE ANY ADDITIONAL COMMENTS ON ALTERNATIVE INVESTMENTS.

_____

_____

Tell us where to send your free copy of the printed report on the survey results:

Name_____

Address_____

City_____State_____Zip_____

Phone_____

This survey has been sent to all Social Investment Forum members and to nonmember financial professionals who have expressed interest in SRI. If you are aware of anyone who has not received a copy and would like to complete this survey, please write their names here:

Name _____ Name _____

Address _____ Address _____

_____ _____

Phone _____ Phone _____

THANK YOU FOR RESPONDING.